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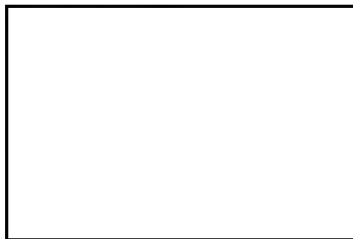
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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday 7 September 1977

CG NIDC 77-208C



NATIONAL SECURITY INFORMATION

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State Dept. review completed

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National Intelligence Daily Cable for Wednesday, 7 September 1977

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The NID Cable is for the purpose of informing senior US officials.

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CANADA: Economic Stagnation

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[REDACTED] //Canadian Prime Minister Trudeau is under increasing pressure to deal with the country's worsening economic and social problems. Recent figures indicate that the economy is continuing to perform dismally, and the persistently high unemployment rate--now 8.1 percent nationwide--has become a major irritant in relations between the federal and provincial governments.//

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[REDACTED] //Canada recently announced that the gross national product in the second quarter of 1977 had declined at a 2.4-percent annual rate in real terms. The unexpected decline--the third in the last four quarters--stems from a drop

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in foreign demand and continued stagnation in domestic demand. Canadian growth now probably will fall far short of the government's hoped-for 4-percent target for 1977. It may be difficult to achieve even the 3.5-percent growth we recently projected.//

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[] //The foreign sector, which was responsible for a very respectable first-quarter growth rate, turned sour in the second quarter, and the export volume of goods and services declined. The depreciation of the Canadian dollar has done little for export volume because many Canadian exporters have maintained the same prices in US dollars to improve profits.//

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[] //Import volume rose sharply even though domestic demand was stagnant and import prices were rising. The increase in volume was apparently due to stockpiling of auto parts by Canadian assemblers in anticipation of strong US demand for the 1978 models.//

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[] //Domestic demand remained weak. Personal consumption, which had held up well in 1976, fell in the second quarter even though most tax payers benefited from income tax rebates. The investment sector showed no sign of providing the needed stimulus to bring the country's economy back on track. The only bright spot was a further reduction in inventories, which could help industrial output later this year.//

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[] //Opposition calls for stimulative economic measures are certain to intensify when Parliament reconvenes in October, and Trudeau may have to give more serious consideration to taking some action. In devising a stimulation package, he will move cautiously, however, for fear of accelerating inflation. The government is particularly concerned about inflation because it recently failed to gain labor's support for voluntary restraints as a condition for ending wage and price controls before their scheduled expiration in late 1978.//

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[] //Inflation remains high despite nearly two years of controls, and unemployment rates in many provinces are at alltime highs with little prospect for improvement in the short term. Public opinion polls indicate that joblessness is considered a more pressing issue than national unity, a view shared by many of Canada's provincial premiers.//

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[redacted] //Trudeau has been under heavy pressure to call
a fall election to take advantage of his renewed popularity
[redacted] but he probably
will do little more than shuffle his cabinet this fall. A
spokesman for Finance Minister MacDonald announced yesterday
that the minister would resign at that time. [redacted]

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CYPRUS: Race for Archbishopric

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[] Leadership of the politically influential Orthodox Church of Cyprus is now certain to devolve on Bishop Chrysostomos of Paphos, following the withdrawal from the race of Bishop Chrysanthos of Limassol, his only challenger.

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[] Chrysanthos' decision not to run in the election to succeed the late Archbishop Makarios came after it became clear that support for Chrysostomos extended well beyond the early coalition of Communists, socialists, and centrists. Chrysanthos, who favored a reduced political involvement for the Church, enjoyed the support of only one wing of the Greek Cypriot right.

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[] Chrysostomos would probably also like to succeed Makarios as president in the February presidential election, but the mood among Greek Cypriots is that the two offices should no longer be held by the same man. He is therefore unlikely to parlay his prospective ecclesiastical victory into a successful run for the presidency. []

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SCANDINAVIA: Foreign Ministers

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[] The foreign ministers of Sweden, Norway, Denmark, Finland, and Iceland met in Helsinki last weekend to coordinate their positions on international issues prior to the convening of the UN General Assembly this month.

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[] The communique following the meeting emphasized African issues, including:

- The establishment of a group to investigate bringing broader economic pressure to bear on South Africa.
- An announcement of readiness to facilitate a peaceful transition to majority rule in Namibia.
- The inclusion of apartheid and racial discrimination in a list of areas for UN action on human rights questions.

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[] On the Middle East, the foreign ministers stressed that no country should take measures which would further complicate the ongoing peace efforts. The ministers also said that potential financial savings made possible by disarmament in industrial nations could become a factor in filling the financial needs of developing nations. They also emphasized the importance of world opinion in focusing attention on violations of human rights.

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BRIEFS

China:

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[] The statement by Chinese Vice Premier Teng Hsiao-ping to a group of visiting US newspaper executives in Peking yesterday was clearly designed to deflate any hope that China is prepared to back away from its basic conditions for normalization of relations with the US. Teng's remarks amount to a strong restatement of China's long-standing position on Taiwan and Chinese-US relations.

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[] The most significant and unexpected aspect of this development is Peking's decision to publicize its view to such an extent. Teng's remarks may point to a more active Chinese public relations effort designed to influence US public opinion and build pressure on Washington to advance the pace of normalization and halt what Peking seems to view as US backsliding on the issue.

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Nigeria:

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[] The Nigerian Government is holding public hearings examining the recent foreign exchange scandal involving some \$1.6 billion in illegal currency transactions. The investigation is apparently remaining low-key, and, according to the US Embassy in Lagos, most observers believe that higher government officials who were allegedly involved are being protected.

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[] Although more than 400 persons have been arrested, a number of prominent suspects have been released, and the volume of accusations against others has ebbed. The majority of those accused are foreign businessmen, particularly Lebanese. No US citizens are known to have been detained. []

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Poland:

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[] The US Embassy in Poland reports that there were some shortages of flour in Warsaw and Poznan last week, but it notes that many stores appear well-stocked and people standing in line seem no more disgruntled than usual. The onset of good weather--after seven straight weeks of rain--probably has helped curb any inclination toward hoarding.

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[] The government has apparently brought additional stocks onto the market both to demonstrate its ability to satisfy demand and to nip in the bud any potential hoarding. Moreover, the regime continues to press its message that despite the bad weather, supplies of foodstuffs--except for meat--will be sufficient. Serious shortages of meat and other foodstuffs still exist, however, and the regime will have to monitor the mercurial public mood carefully. []

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